



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Order Instituting Rulemaking  
Regarding Policies, Procedures and  
Rules for the California Solar Initiative,  
the Self-Generation Incentive Program  
and Other Distributed Generation  
Issues.

R.06-03-004

**REPLY COMMENTS BY  
THE DIVISION OF RATEPAYER ADVOCATES ON PROPOSAL  
FOR SOLAR WATER HEATING PILOT PROGRAM**

In accordance with Administrative Law Judge Duda's June 8, 2006 Ruling, the Division of Ratepayer Advocates ("DRA") respectfully submits Reply Comments on the San Diego Regional Energy Office's ("SDREO") Proposal for a Solar Water Heating ("SWH") Pilot Program established pursuant to Decision No. 06-01-024. In these Reply Comments, DRA offers the following recommendations: (1) a statewide SWH pilot is premature, (2) the details of Measurement & Evaluation should be addressed in Phase II of this proceeding, (3) the Commission should review the SDREO SWH Pilot budget more closely because SDREO's non-incentive budget appears excessive, (4) the Commission should accept SDG&E's and SoCalGas' request to audit a random sample of SWH projects, and (5) the SWH Pilot should not include specific requirements for low-income outreach/incentives. These recommendations are more specifically addressed below.

**I. CONTRARY TO ITS EARLIER POSITION, DRA AGREES WITH SDG&E, SOCALGAS AND SCE THAT A STATEWIDE PILOT OF THE SWH PROGRAM IS PREMATURE**

In its June 23, 2006 comments, DRA expressed support for a statewide SWH program. However, after considering the comments filed by other parties, DRA agrees that a statewide program as premature.

More specifically, the comments of SDG&E, SoCalGas and SCE argue that a statewide SWH Pilot would be premature until a thorough evaluation of the regional pilot is conducted. As these parties point out, one of the objectives of the SWH Pilot is a cost effectiveness assessment. As such, cost effectiveness must be analyzed before expanding the program statewide.

Another reason that a statewide pilot is premature is the unproven effectiveness of the incentive payment system set forth in the SWH Pilot. While DRA supports SDREO's proposal to disburse program incentives to system installers, it is debatable if this is the right approach. For example, SCE supports paying the SWH incentive to the customer while requiring the installers to "provide a reasonable warranty of system performance and/or a warranty against defects in equipment and workmanship"<sup>1</sup> to hold the installer responsible for the quality of the SWH system. Paying the incentive to the installer is a departure from the traditional incentive program where the customer receives an incentive payment as an offset to his/her expenditure on energy efficiency or self generation equipment. It is unclear whether this alternative incentive payment scheme will drive system cost down while also ensuring quality installations. Because of this uncertainty, DRA now views a statewide pilot as premature.

Lastly, DRA highlights the recent Commission decision in the Avoided Cost Proceeding<sup>2</sup> which clarifies that program incentives paid to contractors are not considered as transfer payments in the Total Resource Cost test but, rather, included as

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<sup>1</sup> SCE opening comments p.6.

<sup>2</sup> Decision No. 06-06-063.

part of the Program Administrator costs. In other words, based on the Total Resource Cost test, a program that provides incentives directly to the installer will be less cost effective than a similar program that provides incentives to the customer, with all else being equal.

For all these reasons, DRA supports a limited regional SWH pilot rather than a statewide pilot.

## **II. DRA RECOMMENDS THE COMMISSION DEFER THE DETAILS OF THE M&E ACTIVITIES TO PHASE II OF THE PROCEEDING**

A number of evaluation-related issues are raised in the Opening Comments of SDG&E, SoCalGas and SCE, including (1) the need for an impact evaluation of the pilot program that covers the performance and overall efficiency of the installed systems and, (2) who should oversee and manage the Measurement & Evaluation (“M&E”) study, (3) the coordination of the M&E study for the pilot program with other M&E studies for energy efficiency programs, and (4) the appropriate protocols for such a M&E study. SCE further recommends that the results of the study be provided to the Commission at the end of the initial 12-month period.

DRA agrees that an M&E study of the SWH Pilot is necessary. In its Opening Comments, DRA recommended that the Commission require an impact evaluation as part of its approval of the overall SWH Pilot program. However, the question of who should administer the M&E study and the protocols for such an evaluation should be discussed as part of Phase II of this proceeding. By placing these issues in Phase II, the Commission would give parties the opportunity to examine how best to coordinate evaluation activities between SWH systems and PV systems.

DRA envisions this M&E study to be distinctly different than a Market Impact evaluation that focuses on the impacts of the program on equipment prices and demand. While the Market Impact evaluations can be completed prior to the end of the 18-month pilot period to inform the Commission on whether to expand the SWH program, the M&E study will require a longer period to complete in order to allow adequate data

collection (for example, at least one year of metered data) from a statistically significant sample of the system installations.

Accordingly, the Commission should reject SCE's recommendation to require the M&E study to be completed at the end of the initial 12-month period. And, in addition, the Commission should direct parties to address these issues in Phase II of this proceeding.

### **III. DRA AGREES WITH SDG&E, SOCALGAS, AND SCE THAT SDREO'S NON-INCENTIVE BUDGET CATEGORIES APPEAR EXCESSIVE**

The Opening Comments of SDG&E, SoCalGas and SCE point out that the program budget proposed by SDREO allocates only 45% of the overall program budget to incentive payments. The remaining budget amounts totaling 55% are broadly categorized under Administrative Labor, Other Administrative Costs, Direct Implementation Labor, Online Tools/Other Direct Costs, Metering, Education & Outreach Labor, and Education & Outreach Material Costs.<sup>3</sup>

Regarding the CSI budget, the Commission provided guidance in Decision No. 06-01-024 that "up to 10% of the total [CSI] budget of \$2.5 billion [be allocated] to administrative costs, which includes program evaluation, and marketing and outreach efforts."<sup>4</sup> While the proportion of administrative costs-to-program budget for the SWH Pilot will likely be higher than the CSI solar PV system rebate program, the SDREO budget allocation of 55% to non-incentive budget categories appears excessive under the Commission's prior rulings.

As such, DRA supports the recommendation that SDREO provide the Commission with further detailed line item budgets for the proposed pilot. In addition, the Commission should direct SDREO to attempt to gain cost efficiencies from the

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<sup>3</sup> The combined budget for Administrative Costs and Education/Outreach is \$570,814, or 15.5% of the total pilot budget. Additionally, \$187,700 is budgeted for Online Tools/Other Direct Costs and \$90,000 is budgeted for Metering. These two budget categories appear closely related to marketing/outreach and evaluation efforts. Another \$506,667 is budgeted as Direct Implementation Labor Costs. It is unclear what these labor costs cover, besides processing rebate applications.

<sup>4</sup> Decision No. 06-01-024, p. 7.

existing infrastructure provided by SDREO and SDG&E as part of their concurrent CSI and energy efficiency program offerings.

**IV. THE COMMISSION SHOULD ACCEPT SDG&E’S AND SOCALGAS’ RECOMMENDATION TO AUTHORIZE SDG&E TO AUDIT THE SWH PILOT**

In their opening comments, SDG&E and SoCalGas recommend that “the Commission authorize SDG&E to audit a random sample of SWH project files in the same manner as currently authorized in the SGIP and include in the SDREO/SDG&E contract.”<sup>5</sup> DRA agrees that the issue of SWH efficiency and cost effectiveness should be evaluated independently. The Commission would benefit by such an audit when it considers its authority, as described in Decision No. 06-01-024, to “audit or otherwise review spending and accounting for these [SGIP and CSI] programs....”<sup>6</sup> Accordingly, DRA recommends that the Commission authorize SDG&E to audit the SWH Pilot with the provision that it provide SDREO with the opportunity to respond to audit findings prior to presenting its findings to the Commission.

**V. THE COMMISSION SHOULD REJECT SDG&E’S AND SOCALGAS’ SUGGESTION THAT THE SWH PILOT INCLUDE EDUCATION AND OUTREACH FOR LOW-INCOME COMMUNITIES**

In their opening comments, SDG&E and SoCalGas suggest that SWH Pilot collaborate with SDG&E on outreach and education efforts targeting the low income community. While the Commission has set out guidance regarding outreach to low income customers as part of the CSI program,<sup>7</sup> DRA recommends that the Commission not impose such requirements on the SWH Pilot.

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<sup>5</sup> SDG&E and SoCalGas Opening Comments, p.7.

<sup>6</sup> Decision No. 06-01-024, p.8.

<sup>7</sup> In Decision No. 06-01-024 at page 27, the Commission requires “a minimum of 10% of program funds be applied to projects installed by low income residential customers (that is, those who qualify for CARE rates) and affordable housing projects” and that “qualifying customers and developers would receive 125% of the prevailing incentive for solar installations.”

The goals of the Pilot include demonstrating the cost effectiveness of SWH systems, proving the effectiveness of the incentive structure employed by the SWH Pilot, and identifying market receptivity to SWH technology. These goals can be achieved in the absence of low-income outreach. Furthermore, outreach to the low-income community may dilute the limited resources available to the Pilot program and decrease overall program cost effectiveness. Should the Commission decide to expand the SWH program after this initial Pilot, then low-income outreach and low-income incentive levels should apply.

## **VI. CONCLUSION**

DRA appreciates this opportunity to comment on the SDREO's SWH Pilot proposal and requests the Commission to consider the recommendations set forth above.

Respectfully submitted,

/s/ REGINA M. DeANGELIS

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I hereby certify that I have this day served a copy of **“REPLY BRIEF OF THE DIVISION OF RATEPAYER ADVOCATES ON PROPOSAL FOR SOLAR WATER HEATING PILOT PROGRAM”** in **R.06-03-004** by using the following service:

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Executed in San Francisco, California, on the **10th** day of **July, 2006**.

/s/ HALINA MARCINKOWSKI  
Halina Marcinkowski

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